Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Maruti Suzuki India Ltd

Margins improve in a tough market

Automobiles	Sharekhan code: MARUTI
Reco/View: Buy ↔	CMP: Rs. 7,732 / Price Target: Rs. 9,820 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↑	

ESG Disclosure Score NEW

ESG RISK RATING 26.53

Updated Feb 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

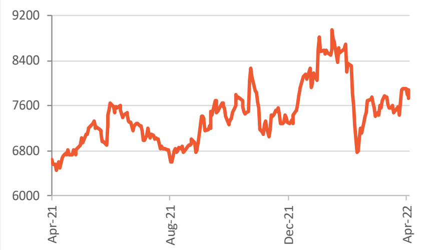
Company details

Market cap:	Rs. 2,33,568 cr
52-week high/low:	Rs. 9,022 / 6,400
NSE volume: (No of shares)	8.66 lakh
BSE code:	532500
NSE code:	MARUTI
Free float: (No of shares)	13.2 cr

Shareholding (%)

Promoters	56.4
FII	22.6
DII	16.3
Others	4.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.4	-3.9	1.8	16.4
Relative to Sensex	4.3	-3.2	8.7	-1.5

Sharekhan Research, Bloomberg

Summary

- For Q4FY2022, Maruti Suzuki India Limited's (MSIL) operational performance exceeded expectations, driven by operating leverage benefits, lower sales promotion, and price hikes.
- MSIL is likely to benefit from rural and semi-urban demand, led by the marriage season and improved cash flows in the hands of consumers due to harvesting of Rabi crop.
- Earnings are expected to post a 61.6% CAGR during FY2022-FY2024E, driven by a 19.7% revenue CAGR and 440-bps improvement in EBITDA margin.
- We retain our Buy rating on the stock with an unchanged PT of Rs. 9,820, led by buoyant demand and comfortable valuations.

We stay positive on Maruti Suzuki India Limited (MSIL), as we expect volumes to regain pace going forward as the shortage of semiconductor chips is gradually easing. The company reported higher-than-expected operating performance in Q4FY2022, led by operating leverage benefits, lower sales promotion, and price hikes. The company plans to strengthen its position in the SUV segment through new launches in the sub-segment and its increasing focus on greener technologies, including CNG-variant and electric vehicle (EV) product development. Buoyant rural demand and new launches would be key growth drivers for the company going forward. Order book remains high at above 3.5 lakh units due to supply constraints. Earnings are expected to witness a 61.6% CAGR during FY2022-FY2024E, driven by a 19.7% revenue CAGR and 440-bps improvement in EBITDA margin. We expect MSIL's market share to improve, led by rising demand from rural and semi-urban markets, improving supply constraints, new launches, and focus on green technology. We reiterate our Buy recommendation on the stock price with an unchanged price target (PT) of Rs. 9,820.

Key positives

- Improvement in average realisation by 12.1% y-o-y helped to report 11.3% revenue growth, despite a 0.7% decline in volumes.
- EBITDA margin expanded by 30 bps higher than our expectations for Q4FY2022. EBITDA margin for Q4FY2022 stood at 9.1%, which is a sequential improvement of 240 bps q-o-q.
- FY2022 had record sales in exports and CNG models for MSIL.

Key negatives

- Shortage of chips impacted production of 2.7 lakh vehicles in FY2022.

Management Commentary

- Demand scenario remains robust with pending deliveries of more than 3.5 lakh vehicles
- The company expects raw-material prices to remain firm in Q1FY2023, while it expects precious metals to settle down.
- Management continues to focus on the SUV segment, CNG variants, and EV product development. MSIL will invest Rs. 160 crore to expand the annual capacity of its Manesar plant by 1,00,000 units by April 2024.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 9,820: MSIL is expected to witness a recovery in domestic demand with sales volume sustaining growth, despite near-term challenges of electronic component shortage. Sales enquiries remain strong with order book currently at more than 3.5 lakh units. We expect growth momentum to continue in FY2023E, driven by normalisation of economic activity and improving rural sentiments. Margins are expected to improve from 6.4% in FY2022 to 10.8% in FY2024E, driven by operating leverage benefits and cost-control measures. We remain positive on the company, led by its structural growth outlook (which remains intact), healthy balance sheet, and comfortable valuations. The stock is trading at P/E of 23.8x and EV/EBITDA of 17.8x its FY2024E estimates. We retain our Buy rating on MSIL with an unchanged price target (PT) of Rs. 9,820.

Key Risks

The fear arising from the fourth wave of COVID-19 remains a potential concern. Any significant delay in improvement of chips shortage could affect our volume estimates.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Net sales	70,333	88,296	1,10,235	1,26,605
Growth (%)	-7.0	25.5	24.8	14.9
EBITDA	5,287	5,662	10,979	13,666
EBITDA %	7.5	6.4	10.0	10.8
PAT	4,230	3,766	7,792	9,834
Growth (%)	-25.1	-11.0	106.9	26.2
FD EPS (Rs.)	140.0	124.7	257.9	325.5
P/E (x)	55.2	62.0	30.0	23.8
P/B (x)	4.5	4.3	3.9	3.5
EV/EBITDA (x)	44.0	41.6	21.5	17.8
RoE (%)	8.2	7.0	13.1	14.8
RoCE (%)	9.4	8.0	15.5	17.8

Source: Company; Sharekhan estimates

Key Highlight of Q4FY22 results and conference call

- **Operating performance exceeded expectations in Q4FY2022:** MSIL reported better-than-expected performance, led by lower sales promotion and price hikes. Volume sales during the quarter was impacted by the weak festive season. Net revenue improved 11.3% y-o-y to Rs. 26,740 crore, led by 12.1% growth in average realisation, despite a 0.7% decline in volumes. Increased average realisation was because of price hikes taken by the company during the year due to higher raw-material costs. EBITDA margin expanded by 30 bps sharper than our expectations for Q4FY2022. EBITDA margin for Q4FY2022 stood at 9.1%, which is a sequential improvement of 240 bps q-o-q. EBITDA margin improved because of lower sales promotion and price hikes. There was an improvement of 170 bps q-o-q in gross margin to 26.5%. On a y-o-y basis, EBITDA margin improved by 80 bps y-o-y. As a result, EBITDA and PAT declined by 21.9% y-o-y and 57.7% y-o-y to Rs. 2,427 crore and Rs. 1,838 crore, respectively.
- **Management outlook:** The demand scenario remains robust with pending deliveries of more than 3.5 lakh vehicles. Management continues to focus on the SUV segment, CNG variants, and EV product development. The company expects raw-material prices to remain firm in Q1FY2023, while it expects precious metals to settle down. The company's Board of Directors recommended a dividend of Rs. 60 per share in FY2022 as compared to Rs. 45 per share in FY2021.
- **New launches and product performance:** The company launched new CNG variants of all new Celerio and new Baleno, which are receiving good response from customers. Rising gasoline prices and mileage benefits are the key drivers for this CNG variant. Management continues to remain aggressive in product launches, especially in the SUV segment, going forward. In the medium term, the company will continue to focus on hybrid technology, while it continues to work on EV technology.
- **Capex plans:** The company invested Rs. 3,500 crore in capex during FY2022 and plans to further invest ~Rs. 5,000 crore in FY2023E. The company will use internal accruals for capacity expansions. The capex relates to land purchase, capacity expansion, facilities, and new launches. MSIL will invest Rs. 160 crore to expand its annual capacity of its Manesar plant by 1,00,000 units by April 2024.
- **Exports stay buoyant:** Management expects exports to be a key growth driver going forward, given improving scenario in other geographies. Exports remained robust during Q4, with exports improving 92.7% y-o-y to 68,454 units. The company is operating at full capacity, which will keep driving profitability. The company is receiving strong response for its Jimny SUV in export markets. Exports have more than doubled over the previous year, driven by strong sales in Africa, South Africa, Latin America, Chile, and Egypt. The company benefitted from Toyota's distribution network globally.
- **Strong earnings growth:** MSIL's robust distribution network for passenger vehicles (PVs) and rural penetration are likely to drive strong revenue growth going forward. Volumes are expected to improve in FY2023E with expectations of strong double-digit growth, aided by robust exports as well. MSIL would benefit from operating leverage, driven by robust volume growth. We expect its earnings to post a 61.6% CAGR during FY2022-FY2024E, driven by a 19.7% revenue CAGR and 440-bps improvement in EBITDA margin.

Results (Standalone) Rs cr

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Revenues	26,740.0	24,023.7	11.3	23,246.0	15.0
Operating Expenses	24,313.2	22,032.6	10.4	21,687.0	12.1
EBIDTA	2,426.8	1,991.1	21.9	1,559.0	55.7
Depreciation	647.2	741.0	-12.7	640.0	1.1
Interest	56.0	32.4	72.8	25.2	122.2
Other Income	474.4	89.8	428.3	328.0	44.6
PBT	2,198.0	1,307.5	68.1	1,221.8	79.9
Tax	359.1	141.4	154.0	210.5	70.6
Adjusted PAT	1,838.9	1,166.1	57.7	1,011.3	81.8
EPS	60.9	38.6	57.7	33.5	81.8

Source: Company; Sharekhan Research

Key Ratios (Standalone)

Particulars	Q4FY22	Q4FY21	Y-o-Y (bps)	Q3FY22	Q-o-Q (bps)
Gross margin (%)	26.5	26.1	30	24.7	170
EBIDTA margin (%)	9.1	8.3	80	6.7	240
EBIT margin (%)	6.7	5.2	150	4.0	270
Net profit margin (%)	6.9	4.9	200	4.4	250
Effective tax rate (%)	16.3	10.8	550	17.2	-90

Source: Company; Sharekhan Research

Volume Analysis (Rs. per Vehicle)

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Volumes	4,88,830	4,92,235	(0.7)	4,30,668	13.5
Revenue/Vehicle	5,47,020	4,88,053	12.1	5,39,766	1.3
RMC/Vehicle	4,02,322	3,60,618	11.6	4,06,417	(1.0)
Gross profit/Vehicle	1,44,699	1,27,435	13.5	1,33,349	8.5
Operating exp/Vehicle	4,97,375	4,47,603	11.1	5,03,567	(1.2)
EBITDA/Vehicle	49,645	40,450	22.7	36,200	37.1
PAT/Vehicle	37,618	23,690	58.8	23,482	60.2

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Expect recovery in PV demand

The PV segment is expected to remain strong amid COVID-19, as a preference for personal transport, pent-up demand, and strong rural sentiments. Supply-side headwinds related to semi-conductor shortage are expected to slow down domestic PV sales to 17-20% in FY2023E. We expect shortage of semiconductor chips to ease going forward and normalise by CY2023. Moreover, recovery in export destinations is expected to keep growth momentum favourable.

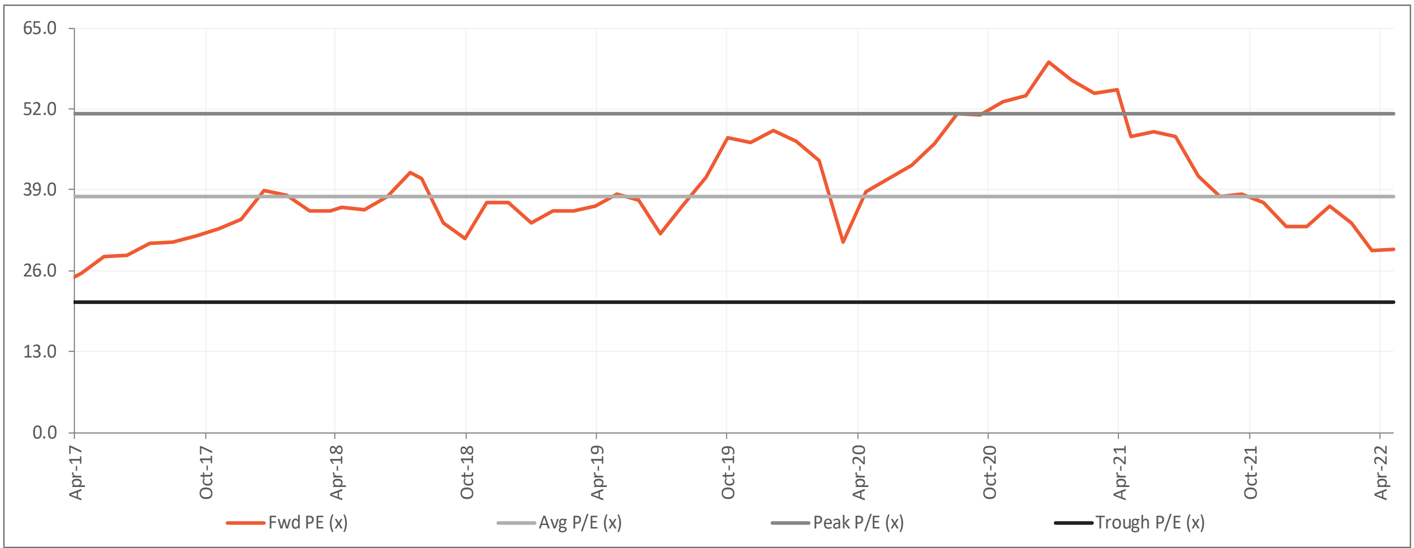
■ Company Outlook – Strong earnings growth from the core business

Management was cautiously optimistic on the demand outlook for domestic as well as export markets. The company has witnessed strong demand from rural and semi-urban areas, where MSIL's distribution network and product portfolio fit aptly. Improving income levels of individuals, firms, and corporates are likely to keep demand strong in the medium term. However, near-term growth would be affected by shortage of electronic components. We expect FY2023 to be a stronger year for MSIL, driven by strong volume growth. Volume growth will be aided by new product launches, a quick economic recovery, upside from COVID-19 vaccines, and a low base. MSIL's strong distribution network in the segment and rural penetration are likely to drive strong revenue growth going forward.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 9,820

MSIL is expected to witness a recovery in domestic demand with sales volume sustaining growth, despite near-term challenges of electronic component shortage. Sales enquiries remain strong with order book currently at more than 3.5 lakh units. We expect growth momentum to continue in FY2023E, driven by normalisation of economic activity and improving rural sentiments. Margins are expected to improve from 6.4% in FY2022 to 10.8% in FY2024E, driven by operating leverage benefits and cost-control measures. We remain positive on the company, led by its structural growth outlook (which remains intact), healthy balance sheet, and comfortable valuations. The stock is trading at P/E of 23.8x and EV/EBITDA of 17.8x its FY2024E estimates. We retain our Buy rating on MSIL with an unchanged price target (PT) of Rs. 9,820.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	Rs/Share	FY21	FY22	FY23E	FY21	FY22	FY23E	FY21	FY22	FY23E
Maruti Suzuki	7,732	55.2	62.0	30.0	44.0	41.6	21.5	9.4	8.0	15.5
M&M	922	28.0	21.7	18.3	15.6	12.3	10.2	13.8	15.7	16.9
Tata Motors	438	NA	NA	15.1	7.2	6.7	4.7	4.7	-	8.5

Source: Company, Sharekhan estimates

About company

MSIL is India's largest PV car company accounting for ~45% of the domestic car market. The company is the undisputed leader in the mini and compact car segments in India and offers full range of cars – entry level, compact cars, and SUVs. MSIL's market share in passenger cars stands at 62%, utility vehicles (UV) at 25%, and vans at 90%. MSIL has been steadily ramping up its presence in the hinterlands, with rural sales currently contributing about 41% to overall sales. MSIL is a subsidiary of Suzuki Motor Corporation of Japan. The Japanese car major holds 56.2% stake in MSIL. The company has manufacturing plants in Gurgaon and Manesar.

Investment theme

MSIL is likely to be the beneficiary of buoyant demand in the PV segment, driven by rising demand in tier 2 and 3 cities and rural areas. Sales from rural areas will continue to improve, driven by strong farm sentiments because of higher rainfall and kharif sowing. We also expect the share of first-time buyers to increase going forward, aided by preference for personal transportation. MSIL is expected to sustain its dominant market share, despite intense competition in the PV segment, aided by its strong product portfolio and position, brand appeal, and ability to launch new models frequently. MSIL has a strong hold in small and mid-size segments with over 50% market share and high success rates of its new launches. The company's brand positioning as a value-for-money product company is likely to remain intact due to its products' best fuel efficiency and lower maintenance cost. In addition, the high resale value of its products attracts customers. Moreover, MSIL has the strongest distribution network and rural penetration in the PV segment that drives its revenue growth. We expect MSIL to be the beneficiary of rising rural demand, driven by its reach and low maintenance services costs.

Key Risks

- MSIL has a weak SUV portfolio and can restrict growth once urban demand comes back strongly. However, we are more positive on rural demand and believe MSIL to be the beneficiary.
- Rising input prices may impact margins, if rising commodity prices could not be passed on to customers. In a scenario of price competition, MSIL's margin may get impacted negatively.
- Any significant delay in improvement of chips shortage could affect our volume estimates.

Additional Data

Key management personnel

R. C. Bhargava	Chairman
Kenichi Ayukawa	Managing Director and CEO
Ajay Seth	Chief Financial Officer
Shashank Srivastava	Executive director, marketing and sales

Source: Company Website

Top shareholders

Sr. No.	Holder Name	Holding (%)
1	Suzuki Motor Corp	56.4
2	Life Insurance Corp of India	5.3
3	SBI Funds Management Pvt. Limited	2.5
4	Icici Prudential	1.3
5	JP Morgan Chase & Co	1.6
6	Kuwait Investment Authority Fund	1.1

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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